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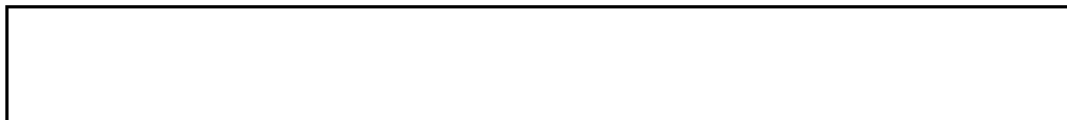
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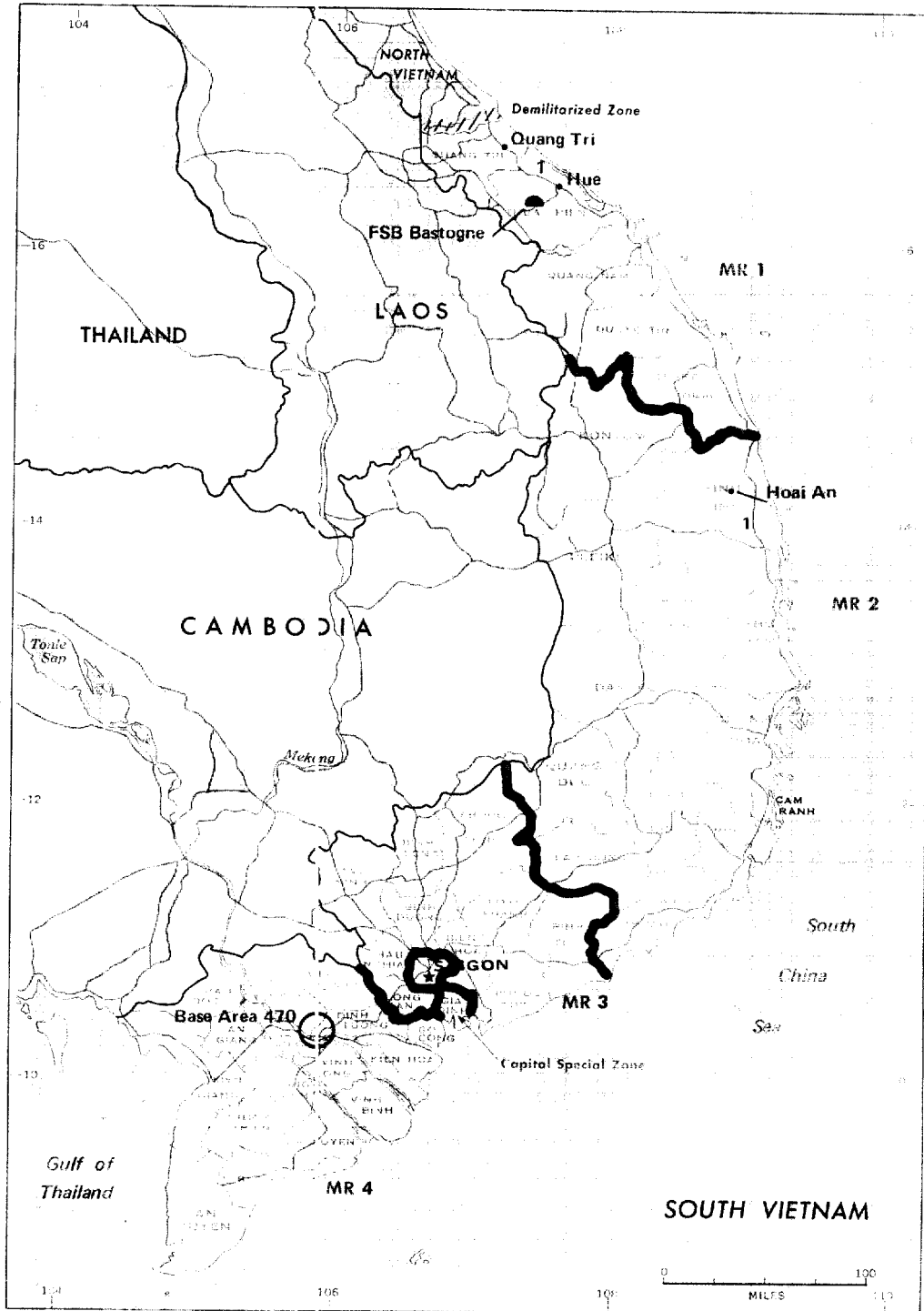
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(C) SOUTH VIETNAM: Fighting has picked up around Quang Tri City.

South Vietnamese Marines, supported by artillery, engaged enemy troops in one of the heaviest battles to date on the northwestern outskirts of the city and held off a number of smaller scale Communist ground assaults. Marine positions in and around the city came under intensive artillery and mortar fire. Just to the south, airborne units also fought several skirmishes and captured six tons of ammunition and supplies. West of Hue, military activity was marked by continued enemy shellings of government positions and several clashes near Fire Support Base Bastogne.

Farther south, the district capital of Hoai An in northern Binh Dinh Province is reportedly deserted. South Vietnamese forces apparently pulled out shortly after they reoccupied it on 28 July. The town's residents fled to nearby rice fields, apparently fearing that the Communists would return and that the South Vietnamese would then direct artillery and air strikes against the town.

In Military Region 3, [REDACTED] that the Communists have already repaired most of the bridges destroyed recently by allied air strikes in northern Tay Ninh Province and adjacent areas in Cambodia and have begun to use the roads again to resupply a base area in northern Tay Ninh. [REDACTED]

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The largest concentration of Communist main force units ever detected in the northern delta is gathering in Base Area 470 at the junction of Dinh Tuong, Kien Phong, and Kien Tuong provinces. At least five infantry regiments and elements of an artillery regiment are now located there, and two

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more infantry regiments appear to be on the way. So far, enemy military activity in the area has been aimed at reducing the government's presence and securing lines of communications, including control over the extensive waterways that criss-cross this sector of the delta. [REDACTED]

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EGYPT-USSR: The withdrawal of most Soviet military personnel, now in progress, does not appear to have affected Soviet economic technicians in Egypt or the training program for Egyptians in the USSR.

The 550 Soviet technical personnel assigned to economic aid projects in Egypt are to be increased.

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The flow of Egyptian technical trainees to the USSR apparently is also continuing.

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(Moscow and Cairo have a mutual interest in the continuation of substantial Soviet economic and technical assistance to Egypt. President Sadat has stated that the removal of Soviet military advisers was not intended to alter the basic friendship and cooperation between the two countries. He has indicated that Egypt continues to rely on the USSR for economic and technical aid.

With the severe reduction of its military presence in Egypt, Moscow must hope that its economic and technical assistance will become an increasingly effective instrument of influence in Egypt and the Arab world. The TASS statement of 19 July, commenting on Sadat's announcement, stressed Moscow's resolve to strengthen relations with Egypt in the)

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(spirit of the friendship and cooperation treaty of May 1971, which included economic and cultural cooperation. Foreign Minister Gromyko, moreover, told the West German ambassador on 25 July that the USSR will continue to provide diplomatic support and economic aid to Egypt.)

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LIBYA-EGYPT: Presidents Sadat and Qadhafi have announced plans for union of their countries by 1 September 1973, but the blueprint for merger is far short of Qadhafi's hope for immediate and complete unity.

As conceived, the union is to be implemented in stages under the direction of a unified political leadership which will recommend plans for merging the institutions of the two countries. Joint committees will be set up to study and prepare for integration of all political, economic, and defense and national security systems. After approval by the leadership of both countries, the final formula for union will be submitted to a popular vote.

Sadat unquestionably wants to move slowly and carefully; the long lead time for the establishment of the union--more than a year away--was probably a concession to him by Qadhafi. Sadat sees little intrinsic value in closer ties with Libya, but probably agreed to Qadhafi's scheme to avoid antagonizing an important aid donor. Still unresolved is how the new union will relate to the Confederation of Arab Republics, made up of Egypt, Libya, and Syria, which was formed last September. Whatever the eventual shape of the Egypt-Libya merger, however, Sadat is not likely to permit Libya to interfere in matters of strictly Egyptian concern.

Qadhafi's eagerness to press ahead with his scheme for Arab unity could cause the Libyan leader serious problems at home. Libya's relations with Egypt were a major cause of the serious discord within Libya's collective leadership in July. The dispute demonstrated that members of the Revolutionary Command Council do not have a common view on the union issue. Some members of the council, who favor a more cautious approach toward Egypt, opposed Qadhafi's generous financial assistance to

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Cairo. The degree of Libya's political and financial commitment to the new union, therefore, is likely to cause dissension within the Libyan ruling group in the coming months and could be a critical factor in the delicate balance among its 12 members. Moreover, much of the Libyan public--especially in the eastern province of Cyrenaica--resents the increasing number of Egyptians in the country. Union with Egypt will be difficult to sell to the Libyans should the plans for merger ever reach the referendum stage.



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BELGIUM: An accumulation of domestic and foreign difficulties could cause Prime Minister Eyskens' government to fall.

At home, differences between the Social Christians (PSC) and Socialists (PSB) in the governing coalition are focused on pending legislative and budgetary programs. The major issues include economic decentralization and greater "regionalization" in social policy. An additional sensitive item is revision of the School Pact of 1958. The original 12-year agreement provided for government aid to Catholic as well as public schools. The Socialists and the opposition Liberal Party, traditionally anti-clerical, oppose renewal of the pact. In each instance the PSC and the PSB are at loggerheads over enabling funds. The prime minister refuses to increase spending without raising taxes, while the Socialists will not accept new revenue measures.

The government's African affairs also are in disarray. Relations with Zaire reached a recent low after Zairian President Mobutu Sese Seko on 30 July charged the Belgians with undermining Zairian currency. Zairian political as well as economic issues are involved and, although the Belgians are attempting to satisfy Mobutu's complaints, Brussels may become a scapegoat for Mobutu's internal problems. Zairian declarations affecting Belgian business interests could, if implemented, further damage relations between the two countries. Mobutu has threatened to halt importation of goods from, and repatriation of profits to, countries that do not "respect" Zairian currency.

Meanwhile, in troubled Burundi, the Belgians are having difficulty attempting to redirect their aid program. The PSC and the PSB both favor cutting military aid to Burundi but disagree on the future of non-military assistance. Belgian attempts to

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reduce direct involvement in Burundian administrative and military affairs are encountering determined resistance from the Burundians who, not without cause, interpret such actions as an indictment of the Tutsi-dominated government's slaughter of the Hutus.

While none of these issues, of itself, need provoke a government crisis, their combined weight has put considerable strain on the coalition. Ey-skens will have to rely on the political skill he has shown in past governments to avert a showdown before Parliament reconvenes on 3 October.

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PHILIPPINES: The disastrous floods in central Luzon have not only dealt a sharp blow to the national economy but will have potentially serious political implications for the Marcos administration.

The 90 inches of rain that fell on central Luzon during the month of July caused widespread destruction of rice fields, buildings, irrigation dikes, and roads; it also damaged stockpiled rice needed to feed both the rural and urban population until the next harvest. At a time when the nation is facing a mounting balance-of-payments deficit, the Filipinos will be hard pressed to find the funds for the needed additional imports.

The Marcos administration, already unpopular with important segments of the population, is now being charged with contributing to the disaster because of its failure to complete flood control projects and because it permitted excessive logging by timber companies in the Luzon watershed area. The initial slow response by government departments to the disaster, as well as allegations that squabbles between local and national officials have hindered relief operations in some areas, may cause resentment against the administration.

The President and his wife have tried to convey a sense of concern through their highly visible mercy missions to the flooded countryside. It is too early to tell, however, how effective this will be in mitigating the recriminations that are currently being voiced. Marcos still has to face the enormous problems of relief and rehabilitation once the crisis is over. In addition to his political critics, the Communist guerrillas in central Luzon will be quick to exploit government difficulties in an effort to score points with the flood victims.

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NOTE

JAPAN: Tokyo's Defense Agency has requested a \$15-billion appropriation for 1972-76, more than double the level of defense spending under the previous five-year program. The share of the gross national product devoted to defense will remain at approximately one percent if the economy grows at or near the expected rate. The revised figure is lower than the \$18-billion request rejected in April. One likely effect of the spending boost would be a significant increase in purchases of military hardware from the US, thus helping to reduce the trade imbalance. There is considerable popular resistance in Japan to increasing defense spending, with some groups preferring instead to devote greater funds to social development projects.

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